

CAN OUR WORKFORCE AFFORD HOUSING IN MIAMI-DADE COUNTY?

An Economic Development Approach



The Beacon Council, Inc.

Miami-Dade County's Official Economic Development Partnership

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INTRODUCTION

The purpose of this report is to understand, from an economic development point of view, the impact of the housing affordability issue on the business recruitment and retention efforts of The Beacon Council and the housing options available to “middle-income” professionals. The latter is currently a major concern for firms looking to relocate to Miami-Dade County and the local companies planning to expand.

While our current residential real estate boom has put Miami-Dade County on the map as a top market for real estate investment and corporate relocations, it has also exacerbated the problem of housing affordability. The current development explosion has accelerated the pace of property appreciation, therefore, making it difficult for many individuals and families to afford a home.

From an economic development standpoint, economic growth is at high risk when population, income and job growth are not supported by an adequate and/or affordable housing supply. Unfortunately, our area has reached a point in which housing affordability may seriously hinder the ability of the business community to attract and retain a skilled and highly trained labor force who depends on the availability of “affordable” housing. The level of concern continues to increase as we see that fewer and fewer individuals including some considered in the “middle-income” category are no longer able to comfortably cover such a basic necessity.

Based on The Beacon Council's experience and on the data we analyze in the following pages, we can infer that our current housing scenario is keeping us from attracting valuable talent or worse yet, retaining those we have. This is clearly a serious challenge to overcome as we strive to remain a global and competitive business center.

While the main issue we discuss in this report is the high cost of housing, we also analyze the relation of household income to housing affordability. The income scenarios are of great importance because of its direct impact on how much individuals or families can afford. The results from these scenarios show that a great disparity exists between the two factors and that significant improvements need to be made in both areas before we can begin to balance the income-housing affordability scale.

This study focuses on single-family homes because the employees relocating to Miami-Dade County with their employers and those locally with a family view Miami-Dade County as a community of single-family homes. With the continuing boom in condominiums and the redevelopment of the urban area with town homes, Miami-Dade County is becoming a city of high-density living like many other major metropolitan cities in the world. This means that employee expectations of housing options will have to change accordingly. Despite the continuing increase in the cost of single-family homes, our research found that there are areas in Miami-Dade County that would give buyers options for affordable homes.

Our analysis provides a broad picture of our current housing situation but while broad, it should serve as the basis to examine deeper the income-housing relation, as well as the long term implication for the future relation to the local economy and the business community.

METHODOLOGY

For the housing cost and income analyses, we relied to a great extent on secondary sources of information in order to achieve data uniformity.

On the **housing** side, we chose to use the “average” cost of the single-family home (including town homes) instead of the “median” because we wanted to cover the entire spectrum of the market, from the lower end of the pricing scale to the higher end.

The cost of housing was calculated using the 2004 annual figures provided by Integra Realty Resources, Inc. – South Florida. Integra is a leading real estate consulting and research firm specializing in the housing market in South Florida. The data was divided into two distinct categories: the “new” single-family category comprised of new construction and the “used” single-family category comprised of existing homes. We did this in order to provide a better understanding of the options available. In addition, we calculated the weighted average for the entire market by adding the total number of “new” and “used” units (single-family homes) and dividing the result by the total dollar amount of all transactions.

On the **income** side, we utilized “household” information as opposed to “families” given the easy accessibility to household data. For income information we used the 2005 annual estimates provided by the Environmental Systems Research Institute (ESRI) as the base for the annual average household income figures. The Florida Agency for Workforce Innovation 2004 County Occupational Employment and Wages ES202 report and the 2004 Florida Department of Education, Series 2005-03B report provided the data for the prevailing wages of the occupations chosen. The ES202 data file can be found in the Florida Agency for Workforce Innovation website at www.labormarketinfo.com.

Both, the single and two-income household scenarios were used for the purpose of illustrating the difference between what a one-person income and a two-income household can afford. For example, what an Office Manager can afford in housing on his/her own may be significantly different from what the same Office Manager can afford if his/her spouse/partner also contributes with an additional income. We opted to use the Miami-Dade County 2004 annual average wage of \$38,758 as the standard for the supporting incomes, as we did not want to assume that supporting incomes were necessarily the same as the annual wages of each occupation. Therefore, two-income households are assumed to be comprised of each occupation’s annual wage as the primary income and the county annual average wage as the supporting income. The information on Miami-Dade County’s annual average wage can also be found in the Florida Agency for Workforce Innovation website at www.labormarketinfo.com.

For calculating the **affordability** figures, we chose to use the “**two and one half (2 ½) rule**” because it provided a broader but consistent measure of affordability. The 2 ½ rule states that the maximum amount a household can afford in housing can be calculated by multiplying the annual household income two and one half times or 2.5. For example, if the annual income of a household equals \$100,000, the maximum amount that household may qualify for in housing is \$250,000. This figure is the result of the formula: \$100,000 (annual household income) x 2.5 = **\$250,000**. Also, the formula can be used to calculate the required annual income to afford the housing cost when the figure is unknown. For example, in a single-family home with a value of \$250,000, the annual income needed can be calculated by reversing the formula as follows: \$250,000 (cost of housing unit) ÷ 2.5 = **\$100,000**. The rule, while not as widely used as the 28% rule (the percentage may vary based on individual lending institution), is still valid and in-line with other local government studies.

While most of the current residential development boom has been concentrated around high-density construction (vertical condominium projects), we have focused on single-family residences because it is the most common preference among our prospective clients. Also, their main interest is mostly based on purchase options versus rental. We can safely assume that a reason for their choice may be the familiarity with this type of housing in their place of origin and the different living environment they provide compared to that of the high-density style of living.

For the housing examples depicting prices around the county area, we divided the county into zip code block groups and used Flagler Street as the North and South boundary line and Miami Avenue as the East and West boundary line. While a significant number of zip codes were chosen, some were not included given the low or lack of single-family residential activity in those areas.

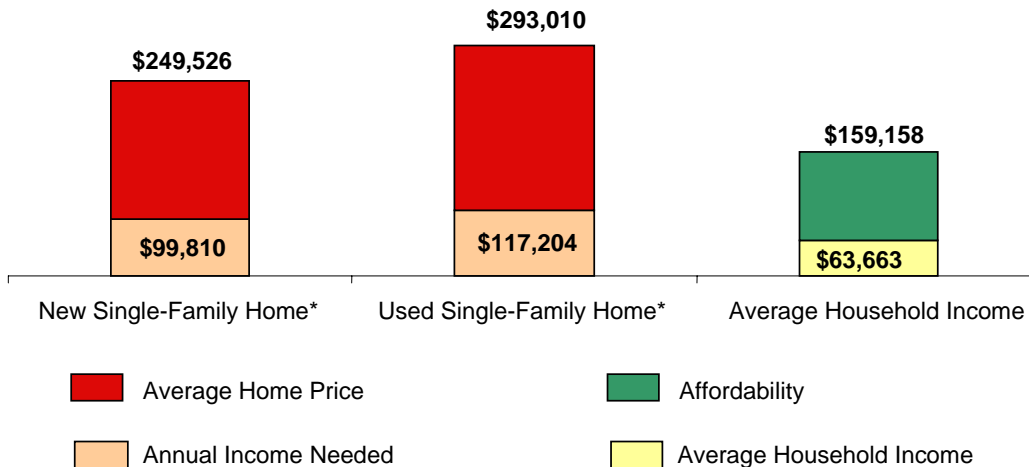
KEY FINDINGS

Case 1: Is the annual average household income enough to afford the county's average single-family home?

Based on **Table 1.1 below**, the gap between income and the current housing cost continues to widen significantly confirming that a household supported by the county annual average income cannot afford the average cost of a single-family home in Miami-Dade County.

To illustrate the argument, Table 1.1¹ shows that a household with the average income of \$63,663 can only afford a maximum of \$159,158 in housing if the 2 ½ rule is applied: $\$63,663 \times 2.5 = \$159,158$. If we analyze both housing categories, we can see that this maximum amount represents only 64% of \$249,526, which is the average cost of a “new” single-family home or the less expensive category. If we compare the same figure to the “used” category, we see that it is only 54% of the average home price or \$293,010. In either situation, the average annual income and the maximum cost of housing it can provide are significantly below the required amounts necessary to purchase a new or used single-family home.

Table 1.1
Current Housing Market vs Housing Affordability

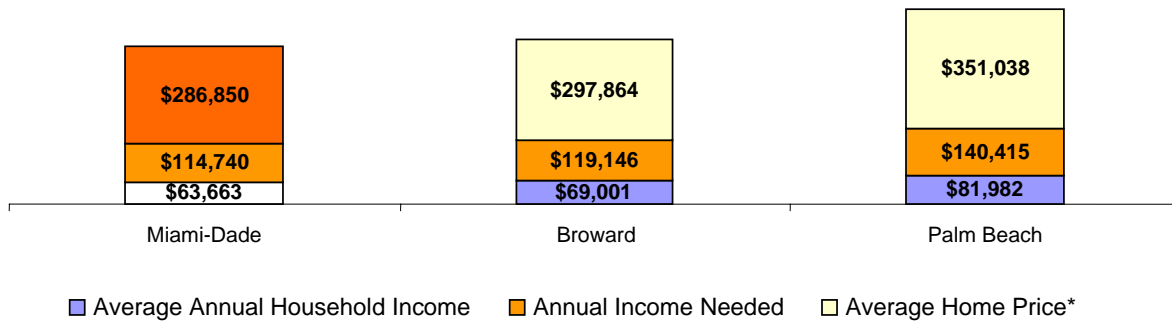


Furthermore, as **Table 1.2** shows below, the unprecedented rise in housing cost that has deterred the majority of our workforce from affording a place to live is a trend that is prevalent on a regional level, exposing our neighbors to the north - Broward and Palm Beach counties - to the same housing challenge.

¹ Source: Integra Realty Resources, South Florida-YE 2004; ESRI-2005 Average Annual Household Income Estimate.

* Single-family residential units not including condominiums.

Table 1.2
Tri-County Current Housing Market vs Affordability



Also shown in **Table 1.2**² is the difference between the average household income and the income “needed” to afford the overall average cost of a single-family home in each of the counties. The table shows clearly that there is a significant gap between household incomes and the annual income needed to afford the average housing in our area. For example, in Miami-Dade County the average household income of \$63,663 is only 55.5% of the \$114,740 income needed to afford the average single-family home costing \$286,850 (average of new and used units combined). In Broward and Palm Beach, the case is not much different with the average household incomes representing approximately 58% of the incomes needed to afford an average home in their respective markets.

Case 2: What can our professional workforce afford?

We are all too familiar with the many reports and with the data that have been provided to support the argument of the housing challenge currently faced by our essential workforce such as police officers, fire fighters, nurses and elementary school teachers. However, little has been written about how the issue has also affected other professions, jobs with higher income levels.

To illustrate the challenge, the following 12 tables provide simple examples of the income versus housing affordability comparisons based on certain professions from specific industries. We chose these professions, along with the essential workforce, from industries targeted by The Beacon Council for its recruitment and expansion efforts. These industries include Financial Services, Bioscience, Aviation and IT/Telecom. The professions chosen are considered crucial in the development of such businesses and the pool of position applicants may not be as large and as readily accessible locally as other positions, therefore, the recruiting process might require the transfer of talent from other areas.

² Source: Integra Realty Resources, South Florida-YE 2004; ESRI-2005 Average Annual Household Income Estimate.

* Home prices are the weighted average of new and used single-family units in each county.

Table 2.1
Essential Workforce Income vs Housing Affordability
 (One Income)

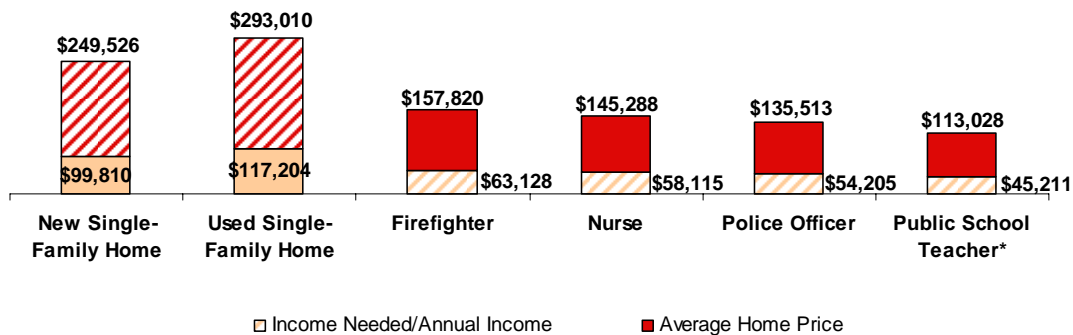
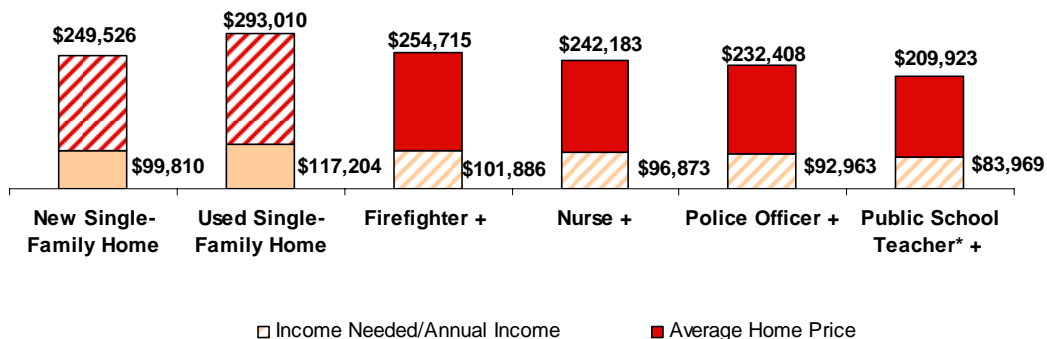


Table 2.1³ shows that while our essential workforce's incomes allow for a decent amount of housing, theoretically, they are not enough to match the incomes needed to cover the market housing cost. For example, a firefighter whose annual income is \$63,128 can afford to purchase a property of up to \$157,820 ($\$63,128 \times 2.5 = \$157,820$). However, that income is well below the \$99,810 and \$117,204 needed to purchase either housing option, new or existing.

On the other hand, **Table 2.2⁴** reflects a more positive but at the same time concerning fact. In order to "close" the gap between the county's average single-family home prices and the necessary incomes to afford them, households supported by this occupation may need a secondary income. For the purpose of this and the following six illustrations (two income scenarios), we assumed the supporting income to be the same as the Miami-Dade County 2004 annual average wage of \$38,758. By adding the supporting income, this household has increased its annual income to \$101,886 ($\$63,128 + \$38,758$) hence increasing also the maximum amount they can afford in housing to \$254,715, if the 2 ½ rule is applied. The new figure of \$254,715 is 61% more than the \$157,820 maximum provided under a single income scenario.

Table 2.2
Essential Workforce Income vs Housing Affordability
 (Two Incomes)



³ Source: Florida Agency for Workforce Innovation, Labor Market Statistics, ES202-"2004 County, 4-digits NAICS"; Integra Realty Resources, South Florida-YE 2004; Florida Department of Education, Series 2005-03B.July 2004. * Wage is the average of teachers' with a bachelor and masters degree

⁴ Source: Florida Agency for Workforce Innovation, Labor Market Statistics, ES202-"2004 County, 4-digits NAICS"; Integra Realty Resources, South Florida-YE 2004; Florida Department of Education, Series 2005-03B.July 2004

Just as **Tables 2.1 and 2.2** suggested that our essential workforce could not afford the county's average cost of housing, at least under a single-income, **Tables 2.3 to 2.11** demonstrate a similar scenario with the exception of few occupations. For each of the sectors chosen, we have illustrated housing affordability based on the single and two-income scenarios.

The results found suggest that while the workforce of these particular industries has significantly higher salaries than those of the essential workforce, the majority of the single incomes are still below the income requirement to keep up with our cost of housing. As a result, the total amounts that these incomes may qualify for in housing are also below \$286,850, which is the average price of a single-family home in Miami-Dade County.

The Essential Business Workforce

Table 2.3
Essential Business Workforce Income vs Housing Affordability
(One Income)

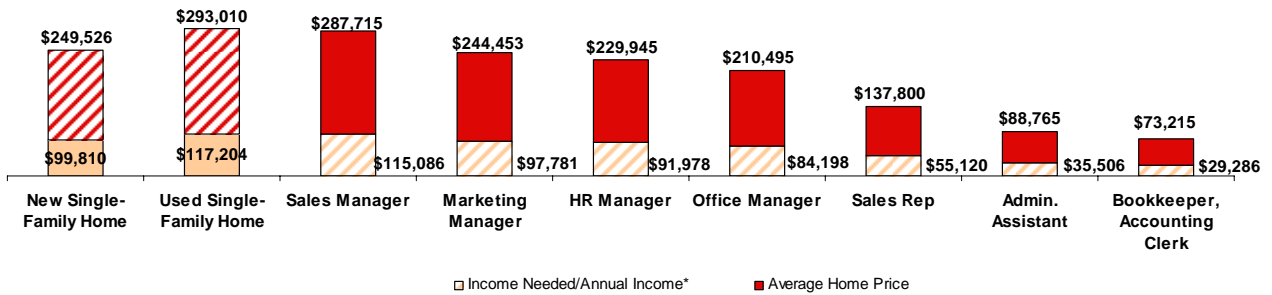
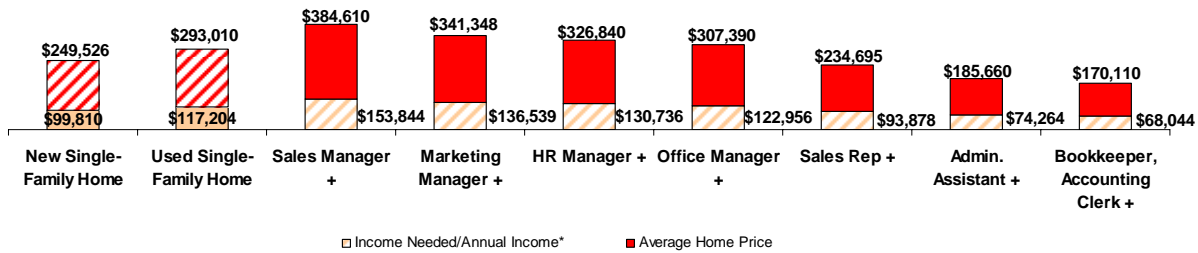


Table 2.4
Essential Business Workforce Income vs Housing Affordability
(Two Incomes)



The Financial Services Workforce

Table 2.5
Financial Services Workforce Income vs Housing Affordability
(One Income)

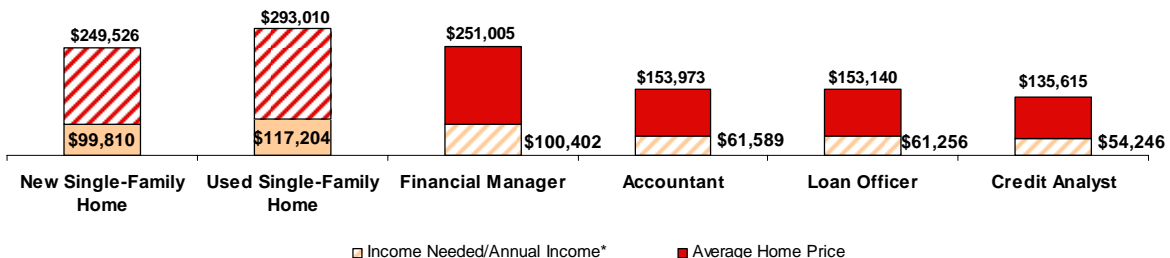
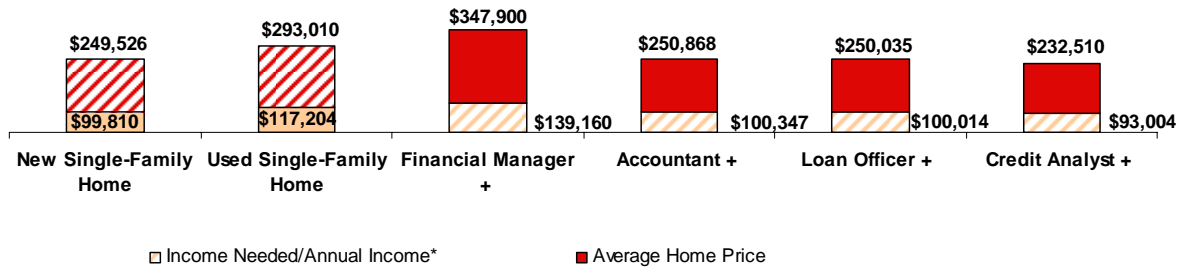


Table 2.6
Financial Services Workforce Income vs Housing Affordability
(Two Incomes)



The Bioscience Workforce

Table 2.7
Bioscience Workforce Income vs Housing Affordability
(One Income)

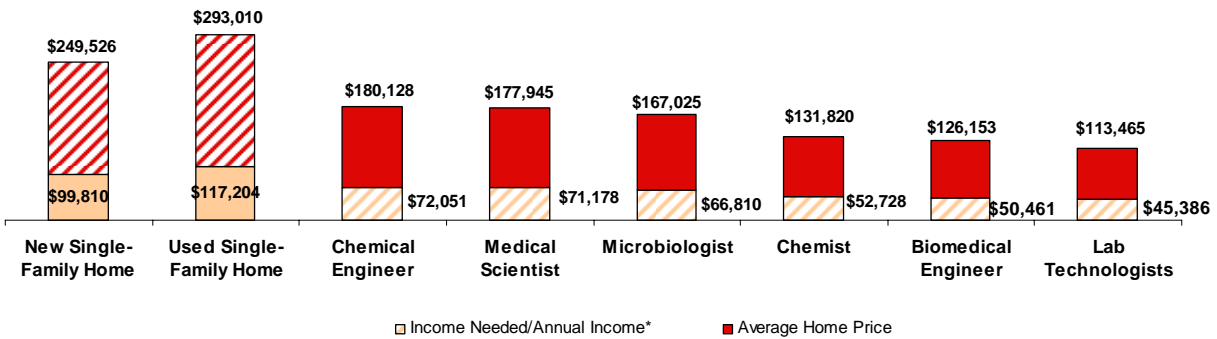
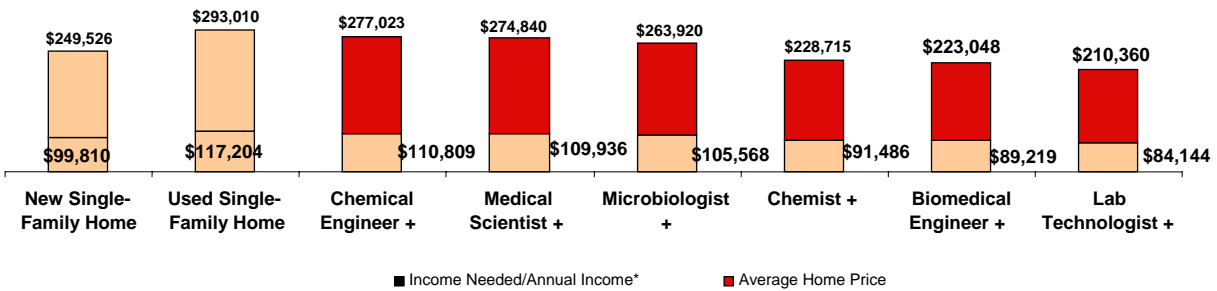


Table 2.8
Bioscience Workforce Income vs Housing Affordability
(Two Incomes)



The Aviation Workforce

Table 2.9
Aviation Workforce Income vs Housing Affordability
(One Income)

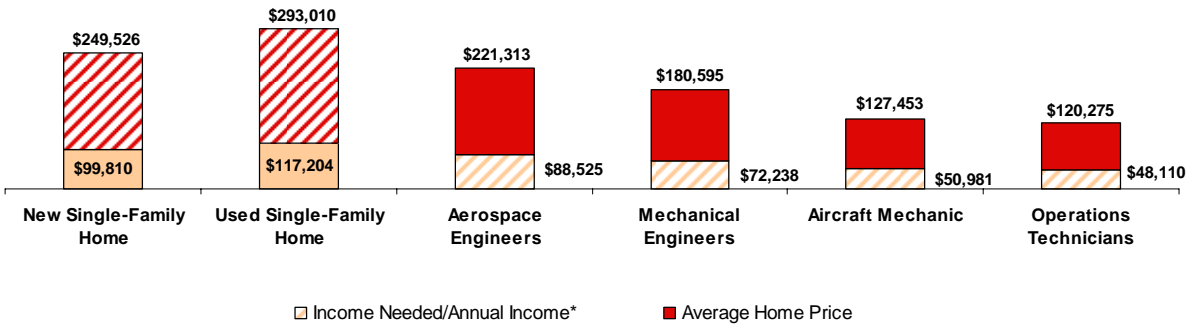
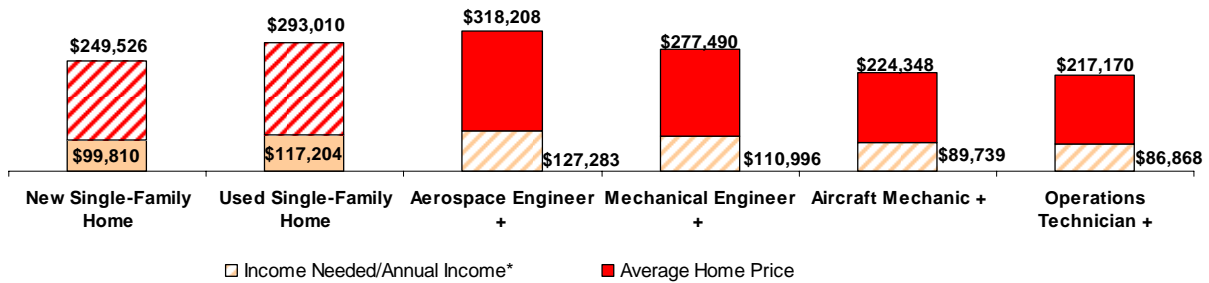


Table 2.10
Aviation Workforce Income vs Housing Affordability
(Two Incomes)



The IT/Telecom Workforce

Table 2.11
IT/Telecom Workforce Income vs Housing Affordability
(One Income)

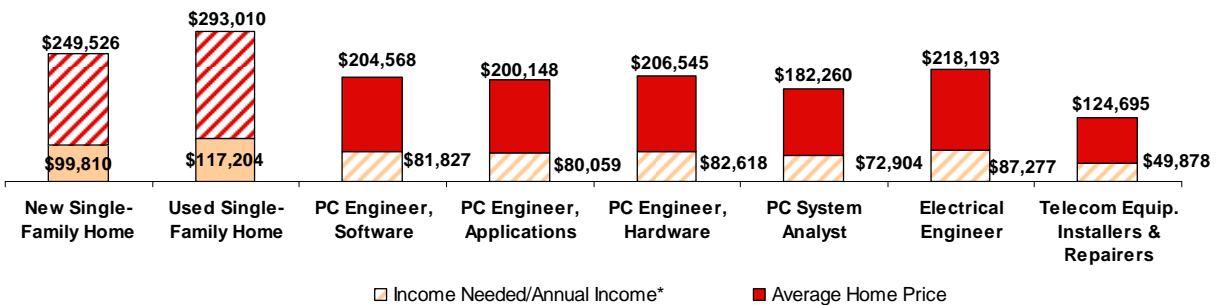
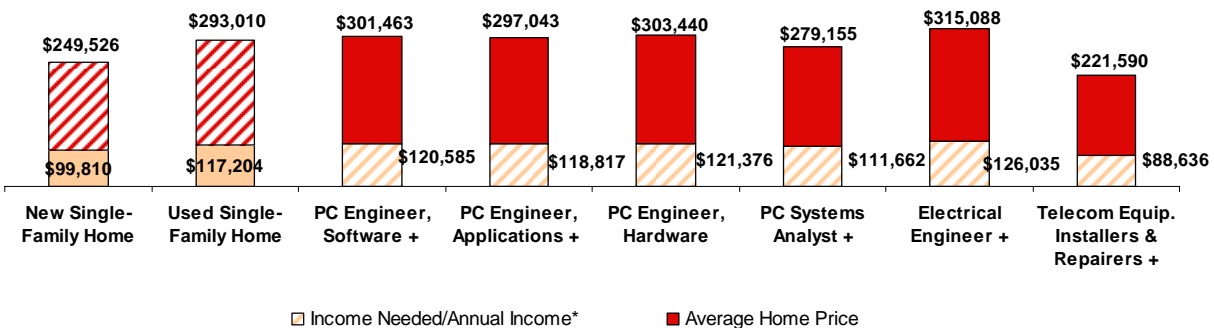


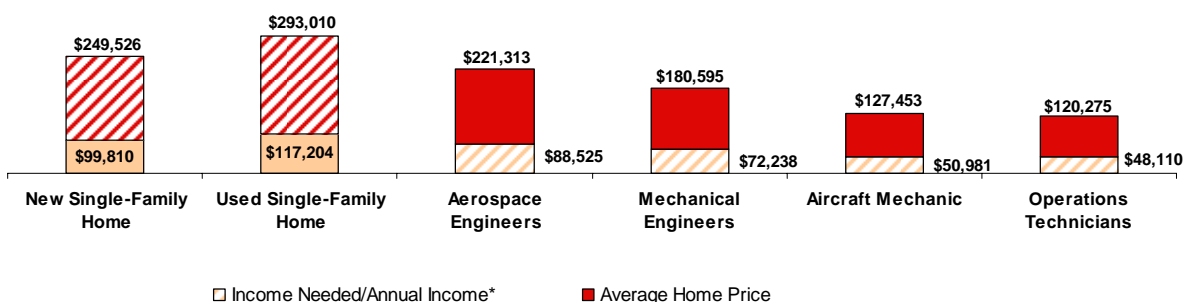
Table 2.12
IT/Telecom Workforce Income vs Housing Affordability
(Two Incomes)



Given these findings, we are left to assume that households in these income categories face a similar challenge, although to a lesser extent, to that of lower income households: ***how much of their total income are they willing to allocate for housing and what other necessary expenses are they willing to give up in order to own a home?*** Because for most single-family homes a two-income household is needed, there are additional costs to be considered, such as daycare or after-school care, and possible private child transportation. These are common issues many prospective employees and employers considering Miami-Dade as a possible relocation site are facing. For institutions in this situation, it is not the company's top level of management that pose a concern when it comes to meeting their housing needs, it is the middle level of management – their “essential” workforce - that presents a challenge.

For example, let's analyze **Table 2.9** as a case scenario, which focuses on the Aviation industry.

Table 2.9
Aviation Workforce Income vs Housing Affordability
(One Income)



If a company employing these types of occupations is to relocate to Miami-Dade County, their apprehension will certainly be focused on these employees trying to find something they can afford. As **Table 2.9** shows, the highest income of \$88,525, corresponding to an Aerospace Engineer, has the closest chance to afford the least expensive type of housing. Unfortunately, the annual income is still approximately 13% less than the income needed to afford the total \$249,526 for a new single-family home.

Likewise, if we observe all the occupations among all the given industries we can see that most of them follow the same pattern, except for certain financial services incomes. The total amount they qualify for is far less than what the housing market is currently offering.

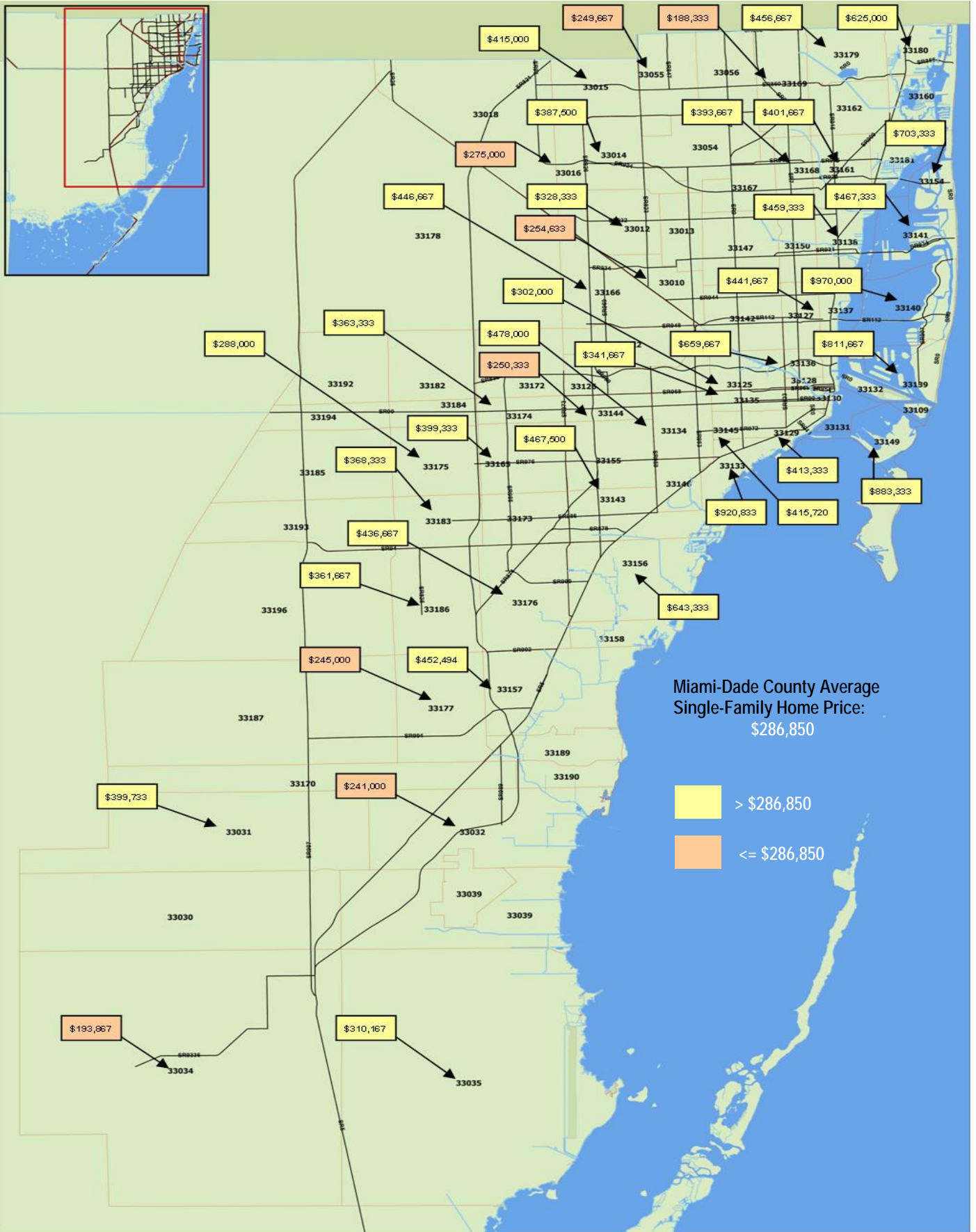
Naturally then, the next question we need to approach is: ***what housing options are available for those in the middle management income bracket?*** In order to answer this question we have provided Figure 1 on the following page.

While all the zip codes in Miami-Dade County are not provided, a significant number of them from all areas of the county (North, South, East and West) are included. A list of all zip codes surveyed is provided in Appendix A. For the purpose of this example, we drew information from a sample of approximately 12 to 15 "closed" single-family residential real estate transactions in the range of 1,500 to 2,000 square feet (considered above average for our area) in each zip code. The figure shown in each area is the average of those transactions analyzed.

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FIGURE 1

Miami-Dade County
FULL COUNTY MAP with ZIP CODES



Our research found that while the average housing cost in most of the areas of Miami-Dade County equals or exceeds the overall average housing cost of \$286,850, there are still some “pocket areas” providing encouraging figures. Surprisingly, in addition to the southern part of the county (South Dade) which is the area most known for providing affordable housing prices (between \$193,000 to \$245,000) other areas also showed positive results. In the northwest part of the county for example, zip codes **33010** (Hialeah), **33016** (Hialeah Gardens), **33055** (Carol City) and **33169** (Norland) showed an average cost of housing for the given square footage of between \$188,333 and \$275,000. These average prices are below the county’s overall average housing cost of \$286,850.

Additionally, the southwest area of the county provided average prices ranging from \$250,333 to \$288,000 located in zip codes **33144** (West Miami) and **33175** (West of Sweetwater).

Although fewer than desired, these results are encouraging because they demonstrate that despite the spike in housing cost throughout the county, there still exists some relatively affordable options.

CONCLUSION

Based on the data provided in this report and on The Beacon Council’s experience from working with businesses facing the housing challenge, it is clear that our current residential development boom is pricing valuable talent out of our market. Consequently, this situation is lessening our area’s chances of continuing as a competitive business marketplace.

The most significant conclusion we drew from our findings was that as our area continues to develop into a world metropolis with increased vertical development, due in part to the lack of available land, individual and families’ expectations might have to change. One of the changes may have to come in the form of shifting the mindset of individuals from owning a single-family home to that of owning a condominium or town home as their permanent, long-term residence. Until recently, Miami was considered a predominantly single-family home market but as the market evolved it has become significantly less feasible for the general population to afford them. Even with the changing housing stock from single-family home to condominiums, the latter are being built and offered at excessively high prices. This means that often a condo might be difficult to obtain for many middle-income families.

In addition, expectations of owning a home based on only one income may also need to change as more people realize this is no longer possible and a secondary or supporting income may be necessary. This means that we need to focus on attracting companies that provide high paying, high skilled jobs for our residents and at the same time, assist existing companies in realizing that higher salaries might be needed in order to retain their existing labor force.

Lastly, while we still have some “affordable” areas available for single-family homes, they are few and vanishing quickly. Then, the concern should be addressed by everyone who is adversely affected by the situation including the local government, the business and general community in order to create the balance we mentioned in the opening remarks between population, income and job growth with an adequate supply of affordable housing. A starting point could be a special summit on housing affordability involving the business community, local governments and real estate developers. This could be done on a regional level, since this is not only a Miami-Dade County issue but also a major concern for all of South Florida. Should this balance continue to dissipate, we will be lacking the essential tools to create true economic development.

APPENDIX A

ZIP CODES

The zip codes surveyed in Miami-Dade County included:

Northeast Area

33136	Miami (Downtown/Overtown)
33137	Miami
33138	El Portal/Miami Shores
33139	Miami Beach (S. Beach)
33140	Miami Beach (N. Beach)
33141	Surfside
33154	Bal Harbour/Bay Harbor Islands
33161	North Miami
33179	Norland/Golden Shores
33180	Golden Beach/Aventura

Northwest Area

33010	Hialeah
33012	Hialeah
33014	Miami Lakes
33015	Miami Gardens
33016	Hialeah Gardens
33055	Carol City
33125	Miami
33166	Miami Springs
33168	Biscayne Gardens
33169	Norland

Southeast Area

33129	Brickell Avenue
33133	Coconut Grove
33149	Key Biscayne
33156	Coral Gables

Southwest Area

33031	The Redlands
33032	South Allapattah/Princeton
33034	Florida City
33035	SE Homestead
33134	Coral Gables
33135	Miami
33143	South Miami
33144	West Miami
33145	Miami
33157	Cutler Ridge/Perrine
33165	Westchester
33174	Sweetwater
33175	W. Sweetwater
33176	Kendall

ADDITIONAL REFERENCES

1. Feldman, Marcos and Jen Wolfe-Borum. *Affordable Housing Cost for Families Residing in Low-Income Miami-Dade Neighborhoods*. Research Institute on Social and Economic Policy (RISEP), Florida International University, Miami, FL. August 2005.
2. Lipman, Barbara J. *Something's Gotta Give: Working Families and the Cost of Housing*. Center for Housing Policy, vol. 5, issue 2.
3. Lipman, Barbara J. *Paycheck to Paycheck : Wages and the Cost of Housing in the Counties, 2004*. Center for Housing Policy for the National Association of Counties (NACo), July 2004.

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